

Industry Oil & Gas
Bloomberg MAHGL IN
BSE CODE 539957

Gradual volume growth with stable margins

RATING	BUY
CMP	913
Price Target	1073
Potential Upside	18%

Rating Change	↔
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	1163/756
Mkt Capital (Rs Cr)	8994
Free float (%)	35%
Avg. Vol 1M (,000)	315
No. of Shares (Cr)	10
Promoters Pledged %	0%

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Q3FY19 result update

- ❑ MGL has reported another good quarter with revenue growth of 29% YoY to Rs. 824 Cr. while PAT has grown by 20% YoY to Rs. 148 Cr. This robust growth is led by 7% growth in total volumes and higher realizations.
- ❑ CNG volume has increased by 8% YoY to 200 MSCM where as realization has grown by 17% YoY to 28/SCM. CNG price has increased in last one year due to the increase in the crude oil prices and gas cost.
- ❑ PNG volume has grown by 8% YoY to 73 MSCM where as the realization has grown by 27% YoY to Rs.33/SCM. Volume growth is attributed to regular addition of new PNG connections where as the prices have increased in correspondence to the hike in the gas cost.
- ❑ Company has reported higher other income of Rs. 20 Cr in the last quarter attributed to the higher cash available in its books.
- ❑ Margins of the company have remained almost flat on sequential basis as the company has taken price hike to offset the hike in the gas cost. However gross margin of the company has declined by 420bps to 53.5% led by the substantial hike in the gas cost on YoY basis.
- ❑ Company's Raigad expansion is running behind schedule, for which company has received show cause notice for shortfall in periodic MWP (Minimum work programme) on 23 July, 2018. The Company submitted catch up plan vide on August 2, 2018 for meeting MWP target by March 2020. The Company has achieved connection targets as per catch up plan up to 31st December 2018 and the progress on pipeline expansion has been accelerated.

View and valuation:

Company has taken price hike in the last quarter in correspondence to the hike in the gas cost which helps the company to maintain its margin level sequentially. Going forward, company's margins are expected to improve marginally on the back of decline in spot LNG prices. Further the management has guided to maintain EBITDA of Rs.8/SCM for FY19e. On the volume front, lower penetration of PNG, higher conversion rate of vehicles to CNG gives ample of opportunities to the company to expand. The company is continuously adding CNG stations and new PNG stations (~ 1 lakh connections every year) which give us volume growth visibility to the tune of 6-7% CAGR over FY18-20e. We expect revenue and PAT to grow at CAGR of 21% and 13% respectively over FY18-20e. Considering above arguments, **we are positive on the long term prospect on the stock. Currently the stock is trading at 14.7x FY20e EPS. We maintain our previous BUY rating with the target price of Rs. 1073**

Key Risks to our rating and target

- ❑ Decline in the prices of the alternate fuel
- ❑ Price hike in domestic gas
- ❑ Slow rate of vehicles conversion to CNG

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2285	2239	2453	3098	3583
EBITDA	509	644	780	909	1016
EBIT	427	549	669	782	876
PAT	311	393	478	557	615
EPS (Rs)	35	40	48	56	62
EPS growth (%)	3%	14%	21%	17%	10%
ROE (%)	18%	21%	23%	24%	24%
ROCE (%)	25%	30%	32%	34%	35%
BV	193	186	212	233	257
P/B (X)	0.0	4.8	3.8	3.9	3.6
P/E (x)	0.0	22.4	16.5	16.2	14.7

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3Q FY 19 PAT above expectation

Better performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	638	644	676	763	824	29.2%	8.0%	2239	2453	9.6%
Other Income	14	17	15	18	20	44.1%	12.2%	53	58	10%
COGS	270	291	293	356	383	42.2%	7.6%	1018	1029	1.1%
Gross Margin	58%	55%	57%	53%	53%	-4.3%	0.2%	56%	59%	3.4%
Employee Cost	17	16	17	18	17	4.0%	-3.1%	60	67	11.7%
Other Expenses	94	103	99	101	113	19.8%	11.8%	311	357	15%
EBITDA	201	176	211	221	239	19.0%	8.0%	644	780	21.1%
EBITDA%	31%	27%	31%	29%	29%	-2.5%	0.0%	28%	31%	3.0%
Depreciation	27	34	30	31	33	22.4%	6.4%	95	111	16.9%
EBIT	174	142	181	191	206	18.5%	8.2%	549	669	21.8%
Interest	0	0	0	0	0			1	0	
PBT	188	160	197	209	227	20.4%	8.6%	601	727	21.0%
Exceptional	-	-	-	-	-			0	-	
Tax	64	55	68	72	78	21.8%	8.1%	207	249	20.0%
PAT	124	106	128	136	148	19.7%	8.8%	393	478	21.5%
PAT Margin	19%	16%	19%	18%	18%	-1.4%	0.1%	17%	19%	1.9%

PNG Volume growth-

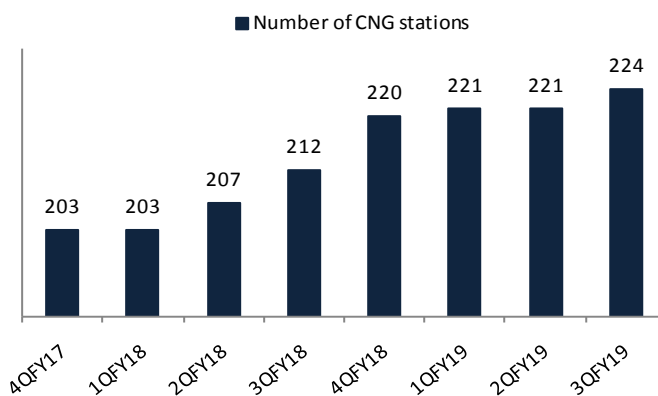
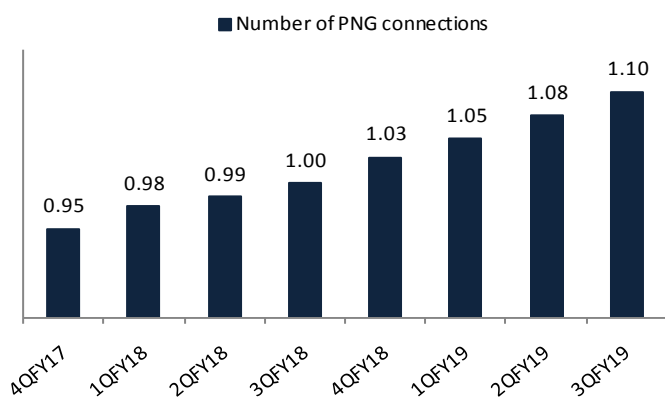
Mahanagar Gas has added 26,286 new PNG connections in Q3 FY19. Total PNG customers reached to 1.10mn implying 30% penetration of addressable market. Further the company has extended its steel pipeline network to 5181 km and targeted to add more than 1.5 lakh new PNG customers in FY19. This gives us long term volume growth visibility of 8-10% every year for the next 3-4 years.

Expanding City Gas distribution network

MGL plans to expand its distribution network in authorized areas of Kalyan, Dombivali, Ambernath, Badlapur, Ulhasnagar, Bhiwandi, Panvel, Taloja and Kharghar. With the target of adding 20 new CNG stations every year. Total number of CNG stations reached to 224 and management is planning to add 20 new stations in FY19 in order to tap the untapped market in the best possible manner.

Government focus on clean fuel

The government is gradually converting the public transport system to CNG fuel. Going forward, the government is expected to promote CNG gas by framing policies/ guidelines to steer bulk of transport sector towards cleaner fuel. To achieve this aim, PNGRB has announced 10th round of bidding of 50 new Geographical areas covering 326 cities by 2022. This will open new doors for MGL to apply in new geographies.



Management Highlights:

Industry outlook:

- Much of anticipated increase in demand will continue to come from retail segment or from CGD(City Gas Distribution) sector.
- Some factors likely to contribute positively like strong policy framework and guidelines in terms of CGD footprint expansion, mission PNG, smart cities, green corridors, etc. The recently concluded 9Th round of CGD bidding which offered 86 new geographical areas(GA) in 174 districts witnessed very enthusiastic participation among industry players.
- Ongoing 10th round of CGD bidding would be covering additional 50 GA's covering 124 districts out of which 112 are full districts and others are in part.
- More OEM are now launching CNG kit fitted variants of car.
- Niti Ayog has laid out plans to add additional pipelines of about 10,000 km to the existing pipeline network of 16,500 km and increase the coverage of city gas distribution and CNG to about 326 cities and towns by 2022 to maximize reach of CNG across the country.

Guidance:

- During the quarter overall sales volume grew by 0.1% on QoQ basis. CNG sales volume declined on QoQ basis due to the Ola and Uber strike for 15 days and school holidays in Diwali and Christmas.
- Management has retained its volume growth guidance to the range of 6-7% for FY19&20e. Vehicle conversion rate has not improved significantly. Currently CNG conversion rate is 6000-6500 per month. This conversion rate is dominated by auto-rickshaws' followed by cars.
- EBITDA of 8/SCM is likely to be achieved this financial year. But these margins are depended on multiple factors like forex change, APM quota, and industrial sales volume.
- Revised capex guidance for FY19&20e is Rs. 375 Cr each from earlier Rs. 300 Cr.
- Company plans to open 20 new CNG stations every year.

Expansion:

- MGL continue to expand its CGD network in existing areas of its operations. During last quarter 26286 PNG connections added. MGL has 77 new industrial and commercial customers and till date company has 3700 industrial and commercial consumers.
- Company is now operating 224 CNG stations supplying gas to 672,000 vehicles and steel PE pipeline network stands at 5181 Km.
- With respect to Raigad GA, company has now 3311 PNG connections. Gas supply to major towns like Uran and Karzat is planned through virtual pipeline.
- In Jan 2019, company has received critical permissions from various authorities for paying pipeline in area. 1 CNG station in Raigad is opened in last quarter and with this currently 7 CNG stations operational in Raigad.

Others:

- Revenue contribution by Raigad GA is negligible.
- Infrastructure exclusivity is still 1.5 years and in coming year company will be making application for roll over.
- Company is looking to participate in 10th round of bidding, bids is due on 5 feb, 2019.
- In last year BG Asia has reduce stake in MGL to 10%. Company is still receiving technical support from them and even if BG Asia quits, company is self reliant and does not need any technical support further, which it is currently getting from BG asia.
- Ola and Uber strike has impacted by 12-14 lakh kg of gas.
- LNG cost in Q3 is in range of 9-10 USD/MMBTU.
- Management does not see any impact of EV vehicles in near and mid-term.
- There is one policy that mandates public vehicles to use only CNG but Ola and Uber has moved to the court stating that have left with many diesel vehicles, asked for more time. For black and yellow taxis CNG is mandatory which is helping company to grow its volume.

Exhibit: CNG volume (SCM Million) trend

Lower CNG pricing policy of company helped to gain volume growth in last two quarters

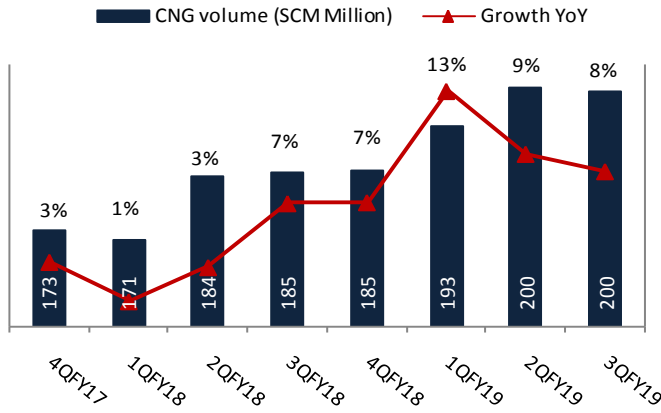


Exhibit: CNG Realization(Rs./SCM Million) trend

Company has raised prices of the CNG gas so as to pass on gas cost hike on its customers

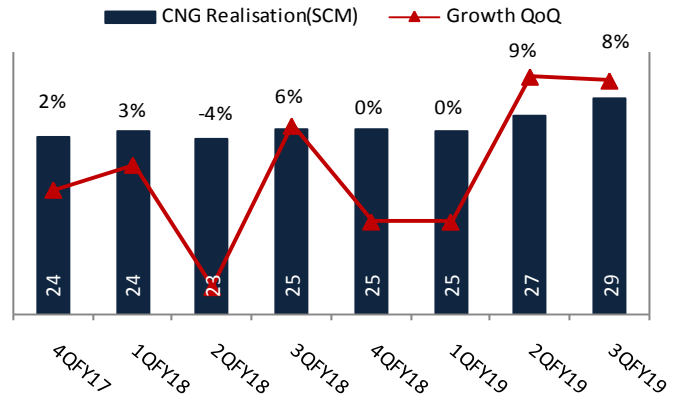


Exhibit: PNG volume (SCM Million) trend

Growing number of PNG connections helped the company to gain volume in PNG

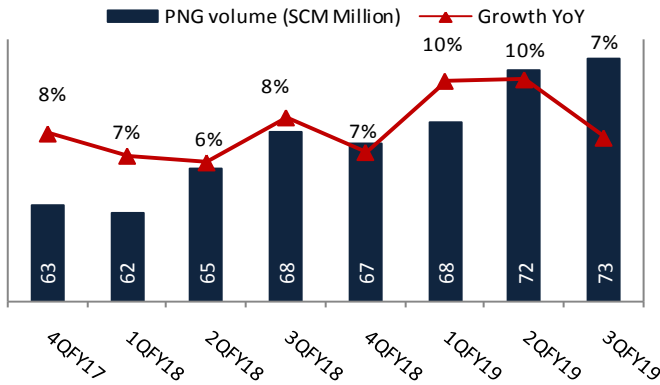


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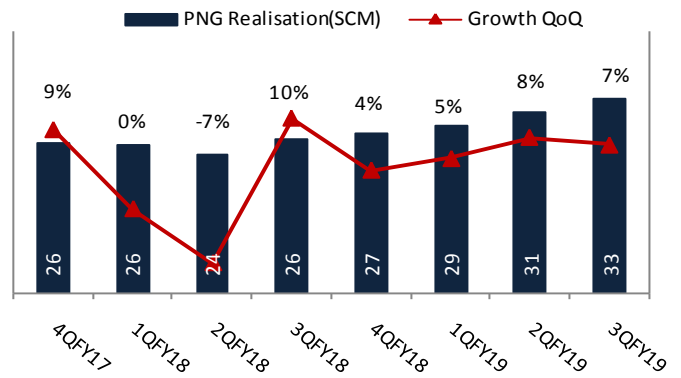


Exhibit: Revenue and PAT Trend YoY

Revenue has increased gradually over the last few quarters on the back of rising volumes in CNG and PNG

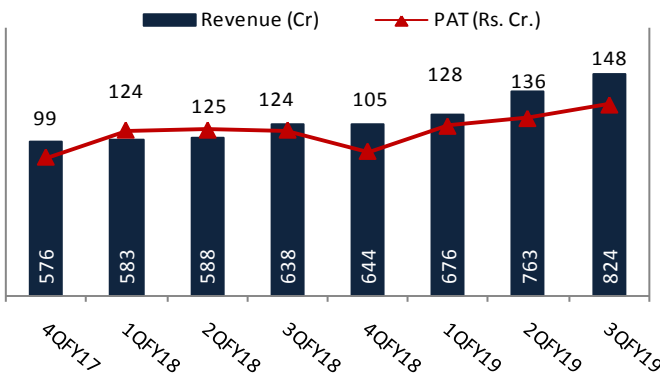
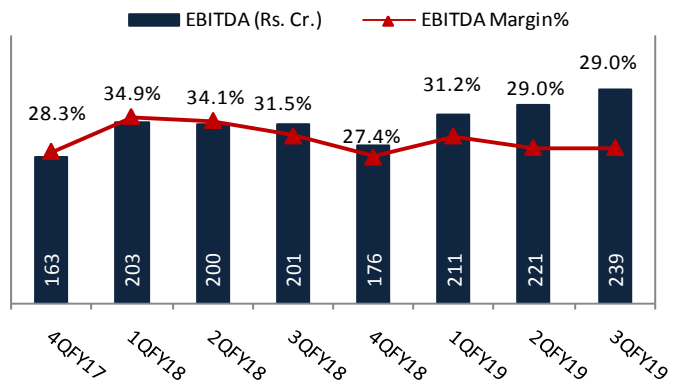


Exhibit: EBITDA and EBITDA margin%

Margins of the company has slightly came under pressure due to hike in the natural gas price



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	89	89	89	89	99	99	99	99
Reserves	1093	1208	1515	1639	1741	1997	2205	2436
Networth	1183	1297	1604	1728	1840	2095	2304	2535
Debt	10	8	7	4	3	1	1	1
Total Capital Employed	1192	1305	1611	1733	1843	2097	2305	2536
Net Fixed Assets (incl CWIP)	1240	1337	1413	1558	1716	1889	2042	2182
<i>Non Current Investments</i>								
Other Non Current Assets	2	2	44	45	82	79	79	79
Non Current Assets	1268	1362	1487	1631	1828	2035	2188	2328
Inventory	14	16	17	18	24	24	30	35
Debtors	90	109	96	92	95	91	115	133
Cash & Bank	66	89	137	175	148	107	282	479
Other Current Assets	22	28	16	18	22	17	22	25
Current Assets	515	612	680	739	796	976	1060	1269
Creditors	86	106	106	112	120	110	139	161
Provisions	188	194	10	12	7	5	6	8
Other Current Liabilities	236	275	33	36	39	38	49	56
Curr Liabilities	511	576	441	506	630	723	753	870
Net Current Assets	5	36	239	233	166	252	307	398
Total Assets	1783	1974	2167	2370	2624	3010	3248	3597

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,651	2,052	2,292	2,285	2,239	2,453	3,098	3,583
Change (%)	52%	45%	44%	47%	56%	59%	55%	54%
Other Income	32	34	41	47	53	58	71	65
EBITDA	483	488	490	509	644	780	909	1016
Change (%)		24%	12%	0%	-2%	10%	26%	15%
Margin (%)	29%	23%	21%	22%	28%	31%	29%	28%
Depr & Amor.	71	81	80	83	95	111	127	141
EBIT	412	407	410	427	549	669	782	876
Int. & other fin. Cost	1	0	1	2	1	0	0	0
EBT	442	442	449	472	601	727	852	940
Exp Item	-	-	-	0	0	0	0	-
Tax	144	145	148	161	207	249	295	326
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	299	297	301	311	393	478	557	615
Adjusted PAT	299	297	301	311	393	478	557	615
Change (%)	0%	0%	1%	3%	27%	21%	17%	10%
Margin(%)	18%	14%	13%	13%	17%	19%	18%	17%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	25%	23%	19%	18%	21%	23%	24%	24%
ROCE	35%	31%	25%	25%	30%	32%	34%	35%
Asset Turnover	0.9	1.1	1.1	1.0	0.9	0.8	1.0	1.0
Debtor Days	20	19	15	15	15	14	14	14
Inv Days	3	3	3	3	4	4	4	4
Payable Days	19	19	17	18	20	16	16	16
Int Coverage	385	1,965	340	192	538	7,432	1,730	1,937
P/E	-	-	-	-	22	16	16	15
Price / Book Value	-	-	-	-	4.8	3.8	3.9	3.6
EV/EBITDA	-	-	-	-	13	10	10	8
FCF per Share	23.8	24.7	25.6	22.8	29.3	38.8	53.0	58.9
Div Yield					2.0%	0.0%	3.2%	3.5%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	442	442	449	472	601	727	852	940
(inc)/Dec in Working Capital	96	30	66	44	72	82	120	106
Non Cash Op Exp	71	81	80	83	95	111	127	141
Int Paid (+)	0	0	1	2	1	0	0	0
Tax Paid	-146	-129	-139	-150	-186	-228	-295	-326
others	-24	-26	-31	-33	-38	-40	0	0
CF from Op. Activities	439	398	427	419	547	652	804	862
(inc)/Dec in FA & CWIP	-225	-177	-197	-215	-257	-269	-281	-281
Free Cashflow	214	221	229	204	290	383	523	582
(Pur)/Sale of Inv	-67	-40	-28	-13	-60	-204	0	0
others	6	17	-35	6	40	54	0	0
CF from Inv. Activities	-285	-200	-261	-222	-278	-419	-281	-281
inc/(dec) in NW	0	0	9	0	0	0	0	0
inc/(dec) in Debt	-1	-2	-2	-3	-2	-2	0	0
Int. Paid	-1	0	-1	0	0	-1	0	0
Div Paid (inc tax)	-156	-183	-183	-188	-282	-224	-348	-384
others								
CF from Fin. Activities	-157	-185	-176	-191	-284	-226	-349	-385
Inc(Dec) in Cash	-3	13	-10	5	-15	8	175	197
Add: Opening Balance	17	13	26	17	22	7	107	282
Closing Balance	13	26	16	22	7	15	282	479

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